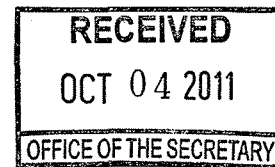


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**UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION**

**INVESTMENT ADVISERS ACT OF 1940  
Release No. 3273 / September 7, 2011**

**ADMINISTRATIVE PROCEEDING  
File No. 3-14536**



**In the Matter of**

**MONTFORD AND COMPANY,  
INC. d/b/a MONTFORD  
ASSOCIATES,**

**and**

**ERNEST V. MONTFORD, SR.,**

**Respondents.**

**ANSWER TO ORDER  
INSTITUTING PUBLIC  
ADMINISTRATIVE AND CEASE-  
AND-DESIST PROCEEDINGS  
PURSUANT TO SECTIONS 203(e),  
203(f), AND 203(k) OF THE  
INVESTMENT ADVISERS ACT OF  
1940**

**ANSWER TO ORDER INSTITUTING PUBLIC ADMINISTRATIVE AND  
CEASE-AND-DESIST PROCEEDINGS**

Respondents Ernest V. Montford ("Montford") and Montford and Company, Inc. d/b/a Montford Associates ("Montford, Inc.") (collectively "Respondents"), by and through undersigned counsel, and for answer to the Division of Enforcement's allegations in the Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940 (the "Order"), state as follows:

**RESPONSES TO NUMBERED PARAGRAPHS OF ORDER**

1. Respondents admit the allegations of Paragraph 1.
2. Respondents admit the allegations of Paragraph 2.
3. Respondents admit the allegations of Paragraph 3.
4. Respondents admit the allegations of Paragraph 4.

5. Respondents admit the allegations of Paragraph 5.
6. Respondents admit the allegations of Paragraph 6, except that Respondents deny any implication that Respondents violated the Forms ADV filed with the Commission in 2009 and 2010.
7. Respondents admit the allegations of Paragraph 7.
8. Respondents deny the allegations of Paragraph 8, except that Respondents admit that Montford, Inc. received two payments totaling \$210,000 from SJK Investment Management, LLC ("SJK") and that those payments represented approximately 25 percent of Montford, Inc.'s total revenue in 2010.
9. Respondents deny the allegations of Paragraph 9, except that Respondents admit that in July 2009, Stanley J. Kowalewski ("Kowalewski") left a registered investment adviser based in the Washington, D.C. area (the "DC Adviser") and created SJK. By way of further response, Kowalewski worked for the DC Adviser and managed investments for eleven Montford, Inc. clients.
10. Respondents deny the allegations of Paragraph 10. By way of further response, Respondents notified clients of Kowalewski's departure from the DC Adviser in July 2009, and, as is generally the case, clients were concerned that an investment manager made a change to a different company.
11. Respondents deny the allegations of Paragraph 11, except that Respondents admit that Montford told Kowalewski that Montford Inc. would need to get paid for its work in assisting with Kowalewski's transition to SJK.
12. Respondents deny the allegations of Paragraph 12, except that Respondents admit that they recommended that some clients invest with Kowalewski. By way of further response, Respondents deny any implication that some clients were

not also recommended other investments or that any recommendations were in any way connected with payments received from SJK; indeed, Montford's own retirement account was the only new account SJK and Kowalewski received from Respondents.

13. Respondents deny the allegations of Paragraph 13, except that Respondents admit client funds were initially transferred from DC Adviser to SJK between August and October 2009, that Montford, Inc. invoiced SJK for \$130,000, and that SJK paid Montford, Inc. on January 4, 2010. By way of further response, Respondents deny any implication that any payments from SJK to Montford, Inc. were contingent upon Respondents' recommendation to their clients that they keep or transfer their funds to SJK. Indeed, the original invoice referred to in Paragraph 13 was for a "Business Consulting Project." The invoice was changed to "Marketing and Syndication Fee for the SJK Investment Management Launch" upon Kowalewski's insistence for alleged accounting reasons.

14. Respondents deny the allegations of Paragraph 14, except that Respondents admit that after January 4, 2010, Respondents recommended that some clients, but not others, invest with Kowalewski. Respondents admit that they did recommend that the client referenced in the third sentence of Paragraph 14 not withdraw its investment from SJK, but any correspondence to Kowalewski related to this recommendation was simply to follow up on information Respondents requested from Kowalewski to present to the aforementioned client. By way of further response, the "additional investments" referred to in the second sentence of Paragraph 14 were either residuals from clients completing fund transfers from the DC Adviser to SJK or transfers that were not based on Respondents' recommendation.

15. Respondents deny the allegations of Paragraph 15, except that Respondents admit that in November 2010, Montford, Inc. sent SJK a final invoice for \$80,000 and that the invoice was paid. By way of further response, the description "Marketing and Syndication Fee for the SJK Investment Management Launch" was included at Kowalewski's insistence.

16. Respondents are without sufficient knowledge or information to form a belief as to the allegations in Paragraph 16, except that Respondents admit that Respondents' clients invested over \$80 million with SJK. By way of further response, Kowalewski told Respondents that SJK managed over \$400 million.

17. Respondents deny the allegations of Paragraph 17, except that Respondents admit that Respondents did not disclose the services and payments to their clients prior to January 6, 2011. By way of further response, Respondents show that Senior Trial Counsel for the Commission was specifically informed of payments from SJK to Respondents by Kowalewski in April 2010, but Counsel took no action to notify Respondents' clients or to advise Respondents of any need to amend or clarify any Form ADV.

18. Respondents deny the allegations of Paragraph 18.

19. Respondents deny the allegations of Paragraph 19.

20. Respondents deny the allegations of Paragraph 20.

## **RESPONSES TO NUMBERED PARAGRAPHS OF ORDER**

### **FIRST DEFENSE**

The Order is barred from pursuing these proceedings pursuant 15 U.S.C. § 78d-5(a), because the Division of Enforcement did not institute these proceedings within 180-days after the Division provided Wells notification to Respondents. The Division

did not also appropriately obtain an extension pursuant 15 U.S.C. § 78d-5(a). Further, the Division was aware of each fact allegedly giving rise to the claims in these proceedings by April 2010, but neglected to pursue them in a timely manner.

## **SECOND DEFENSE**

The Order is barred, in whole or in part, because Respondents' alleged conduct was justified by the circumstances.

Having answered the Order, Respondents respectfully request that the Commission dismiss the Order against Respondents, award Respondents reasonable attorneys' fees, costs, and expenses associated with these proceedings, and grant such other and further relief as the Commission deems proper.

This 28th day of September, 2011.



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